Statement by
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Mr. Chairmen and members of the Committees: I am Dallas L. Salisbury, President and CEO of the Employee Benefit Research Institute (EBRI), a nonprofit research and education organization in Washington, DC. I also serve as Chairman and CEO of the American Savings Education Council (ASEC), a coalition of private- and public-sector organizations that aims to raise public awareness about what is needed to ensure long-term personal financial independence. ASEC is an affiliate of the EBRI Education and Research Fund. I am accompanied by Mathew Greenwald, President of Mathew Greenwald & Associates (MGA), a survey research firm in Washington, DC. EBRI, ASEC, and MGA sponsor the annual Retirement Confidence Survey, and this year, for the first time, sponsored the Small Employer Retirement Survey. It is our pleasure to be here today to release to the Congress these full surveys. In the interest of time, we will concentrate on the Small Employer Retirement Survey. I ask that my full statement and attachments be entered into the written record.

Small Employers and Retirement Plans

Contrary to the perception of some, small employers do sponsor employee benefit programs for their workers (figure 1). The most commonly offered benefits tend to cover near-term worker needs, namely paid time off and health insurance. Benefits whose receipt is further in the future and/or whose use is subject to a greater degree of uncertainty are less commonly offered. For example, according to the 1998 Small Employer Retirement Survey, among small employers that do offer retirement plans, 99 percent also offer paid vacation, 97 percent offer health insurance, 79 percent offer life insurance, 72 percent offer paid sick leave, and 62 percent offer disability insurance. Among small employers without a retirement plan, 88 percent offer paid vacations, 70 percent offer health insurance, 47 percent offer paid sick leave, and 38 percent offer disability insurance.

Retirement plan sponsorship does lag among small employers. Twenty-nine percent of workers at employers with under 100 employees are covered by a retirement plan at work, and 21 percent actually participate in a plan at work. This means that out of 35 million employees at small employers, 25 million do not have access to a retirement plan at work. By comparison, at employers with 100 or more employees, 83 percent of workers are covered by a plan and 64 percent actually participate in a retirement plan.

Why don't more small employers sponsor retirement plans? The knee-jerk response is typically "administrative costs and burdens." While this is an important reason, the actual picture is more complex (figure 2). The three main reasons cited by small employers for not offering a retirement plan are:

- employee preferences for wages and/or other benefits over retirement benefits,
- administrative costs, and uncertain revenue, making it difficult to commit to a plan.

So, while administrative issues matter, other factors that are just as important are also at work, and these need to be taken into account also when discussing policy options.

In addition, it appears that there is a fair amount of misunderstanding about retirement plans among small employers who do not sponsor one, especially as regards expenses. Sponsoring a plan does not have to be as expensive and administratively burdensome as many small employers apparently assume. For example, many do not know that they could establish a retirement plan for less than $2,000. Many assume that they are always legally required to match employee contributions to a plan. And many do not know that they can share plan administrative costs with their employees.

On the other side, small employers that do sponsor a retirement plan for their workers see real benefits, both for themselves and for their workers, in doing so (figure 3). Thirty-five percent report a major impact on their ability to hire and retain good employees, and 30 percent report a major impact on employee attitude and performance. In addition, over one-half (54 percent) report a major impact on their employees' ability to prepare for retirement.

There are reasons to be optimistic about prospects for increased plan sponsorship among small employers. First of all, two-thirds (68 percent) of those without a plan do not think their employees are well prepared for retirement. Second, one-half of those without a plan have seriously considered offering one in the past. Finally, 17 percent say they are very likely to start a plan in the next two years, and an additional 25 percent say they are somewhat likely (figure 4).

In fact, we asked small employers without plans what changes would lead them to seriously consider offering a retirement plan (figure 5). In order of reported importance, they reported:

- increased business profits and a business tax credit for starting a plan, followed by
- reduced administrative requirements, demand from employees, and allowing key executives to save more in the plan.

Implications

The findings of the first ever Small Employer Retirement Survey indicate that effective public policy must educate American workers regarding the need to make retirement planning and saving a priority, in addition to addressing employer concerns about offering plans. In fact, there appears to be a need to educate many small employers about the true costs of offering a retirement plan and about the potential benefits for them as well as for their workers. But unless small employers feel that a retirement plan is something that their workers want and value, they are unlikely to take advantage of whatever "simplified" vehicles are made available.

Individuals and Retirement Savings

The 1998 Retirement Confidence Survey (RCS) provides further evidence of the need to educate Americans regarding the need to make retirement planning and saving a priority. Sixty-three percent of Americans have begun to save on their own for retirement (figure 6). While this is good news in that most Americans are saving for retirement, it also means that one-third are not. Furthermore, these figures have remained essentially unchanged since the question was first asked in 1994.

Even among those who are saving, it is fair to say that most have absolutely no idea how much it is that they need to save by the time they retire to fund their retirement. Less than one-half (45 percent) of all workers have tried to figure out how much they need to save (figure 7). Among retirement savers, the figure is somewhat higher at 57 percent. Therefore, even with most Americans saving for retirement, they are in a sense flying blind and hoping that things work out in the end. In addition, less than one-half of retirement savers are very confident that they are investing their retirement savings wisely (46 percent) (figure 8). Forty-seven percent are somewhat confident. It appears that many retirement savers think that they are investing their funds wisely, but they are not really sure. Therefore, many are saving but they do not know if they are saving enough, and many think they are doing a good job of investing their money but are not really sure.

What motivates workers to begin saving for retirement? The 1998 RCS asked savers just this question (figure 9). The number one motivator was having seen people not prepare and then struggle in retirement. Almost one-half (48 percent) said this provided a lot of motivation, and an additional 36 percent said it provided some motivation. The second biggest motivator was realizing that time was running out. Thirty-seven percent said this provided a lot of motivation, and 42 percent said it provided some motivation. Therefore, the two biggest motivators were in some sense negative events, indicating a need for more proactive efforts designed to get through to workers earlier with the retirement savings message. It should be noted that the third ranked motivator was the availability of a retirement plan at work.

The good news in the 1998 RCS is the evidence that education can have a real impact at the individual level (figure 10). Among workers who had received educational material or attended seminars about retirement planning and savings in the past year, 43 percent reported that the material led them to change the amount they contributed to a retirement savings plan, and 43 percent changed the allocation of their money in a retirement savings plan as a result. In addition, 41 percent said it was such information that led them to begin contributing to a retirement savings plan.

The 1998 RCS also reveals that most working Americans could do more in terms of saving for retirement (figure 11). Fifty-seven percent of workers who have begun to save for their retirement say that it is reasonably possible for them to save $20 per week more than they are currently saving. Among non-savers, 55 percent say it is reasonably possible for them to save $20 per week for retirement. While $20 per week may not seem like a lot of money, it is over $1,000 per year, and over the years this savings could make a real difference. The power of compound interest will help a 25-year-old saving $20 a week, assuming a 5 percent annual return over 40 years, into a $132,000 nest egg. With a 10 percent annual rate of return, $20 per week for 40 years will compound into over $500,000.

Implications

Americans appear to be more focused on retirement than they have been previously, but this focus has not translated into increased confidence. This increased focus has likely resulted in a cold slap in the face with reality for many. Now is the time to reach Americans with more and better information about planning and saving for retirement. While many are saving, most have no idea how much they need to save, and many are not very confident in how they are investing their money. The majority of all workers, whether already saving or not, admit they could do more. These findings indicate the time is right for the National SAVER Summit.